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C O N F I D E N T I A L SECTION 01 OF 03 ANKARA 005262

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SUBJECT: NEW TURKISH DEFENSE INDUSTRY POLICY BEGINS TO TAKE SHAPE

REF: ANKARA 2489

(U) Classified by Ambassador Eric S. Edelman. Reasons 1.4 (b) and (d).

1. (C) Summary: During a Sept 15 tour d'horizon with the Ambassador, Undersecretary for Defense Industry Bayar had a better informed and more balanced view of the state of Turkish defense industry and a clearer vision of where he wants to take it than during their first meeting last May. On procurement, Bayar sees Turkey moving more to a JSF-like consortium model for high-performance, highly complex systems like advanced aircraft, with greater domestic industrial involvement for less technologically advanced systems. On industry, he thought partnering between Turkish and foreign firms was still viable, provided both parties brought value added to the venture. In this regard, he cited GD Land Systems and GE as "good" foreign partners and Lockheed Martin as a "bad" partner. He thought Turkish firms should develop niche capabilities, with communications, software and shipbuilding as likely areas where Turkey could excel. In response to the Ambassador and ODC Chief's point that defense business has a strategic as well as a commercial dimension, Bayar suggested that Turkey would be asking for less specific technology transfer in the future, instead focusing on capabilities, such as the technology necessary to integrate an indigenous mission computer in a new attack helicopter. He asked that organizations that make releaseability decisions receive appropriate "policy guidance." Bayar indicated that Turkey might not use the available EXIM Bank facility to purchase more Seahawks. He minimized the likely impact of EU reforms related to his part of defense spending, although he allowed that final decisions had not yet been made. End Summary.

2. (C) The Ambassador and Undersecretary for Defense Industry Murad Bayar discussed defense industry and GOT military procurement on Sept 15. ODC-T Chief Maj.Gen. Sutton, Deputy U/S for Defense Industry Faruk Ozlu and polmilcouns also participated.

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Turkish Defense Policy's New Direction  
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3. (C) The Ambassador began by saying that he and American companies had many questions about Turkish defense procurement policies and the future role our companies might be able to play in Turkey. Bayar accepted that the situation was unclear. He said that for expensive, technologically advanced and extremely complex systems, like high performance aircraft, Turkey in the future would look for international consortium opportunities like the Joint Strike Fighter or the A-400-M transport programs. For less advanced systems, Turkey would look for more cooperative efforts with greater domestic content. Armored vehicles (other than tanks), for example, might be produced totally in Turkey. There would still be partnerships with foreign firms, he quickly added. The Undersecretariat for Defense Industries (SSM) would look for arrangements in which both sides added value.

4. (C) Unlike his comments last May (reftel), Bayar said that he saw both successful and unsuccessful partnerships in the defense field in Turkey. FNSS (a joint venture with Turkey's Nurol and General Defense Land Systems) was a success which SSM wanted to see continue and prosper. TEI (an aircraft engine firm 49% owned by GE) was another success story. In both cases, the foreign partner demonstrated an interest in the business, seeking international sales, providing technology or otherwise contributing positively to the firm. This was in contrast to Lockheed Martin and its 42% stake in Tusas Aerospace Industries (TAI). Bayar maintained that LM had lost interest in TAI after Turkey's two F-16 programs were completed. Moreover, the partnership agreement forming TAI in 1984 calls for the joint venture to dissolve in 2009 unless the partners agree to continue it. As a result, SSM wanted to buy out LM's stake in the company and resolve the uncertainty of TAI's future. This would allow potential customers to have confidence the firm could deliver on orders beyond 2009, he observed.

5. (C) Bayar thought Turkish defense firms should carve out niches where they could excel. In both communications and

software, Turkey has demonstrated capabilities which could be further developed, he said. Shipbuilding, an already-established industry in Turkey, had potential to expand into the defense arena. Regarding reports of SSM's efforts to "consolidate" Turkey's defense industry, Bayar said consolidation was only contemplated for those companies that were majority owned by the GOT or the Turkish Armed Forces Foundation, including TAI. After rationalizing their management and cost structures, it might be possible to consider privatizing these companies, he opined.

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New Approach to Technology Transfer?  
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16. (C) The Ambassador noted past requests for release of technology had hurt American industry's ability to compete for Turkish contracts. Demands for complete release of source codes could cut American products out of the Turkish market, which was detrimental not only to US commercial interests but also to interoperability of our forces. General Sutton added that Turkey's considering its national interests was only natural, but all that American companies sought was a level playing field and an opportunity to compete. Bayar acknowledged the problem and suggested that SSM was rethinking its approach to technology transfer. In the case of the attack helicopter, the new request for proposals would call for the installation of a Turkish mission computer. It would not demand all source codes, simply the right connectors to permit the installation and sufficient information to allow the computer to interface with necessary systems. He recalled when this issue came up with Bell and its Cobra helicopter last May, the answer to the releasability of this information from Navy IPO was "we will work on it and see." Bayar took this as a positive sign. While he understood the US's need to protect its most sensitive technology, such as on fighter aircraft, he thought technology for helicopters was "less sensitive." "Attack helicopters are not strategic weapons, but tactical" he said. He understood that the organizations that made decisions on releasability were bureaucratic and were averse to changing existing practices. He asked that these decision making bodies receive "policy guidance" to maximize releasability.

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Helicopters  
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17. (C) Responding to the Ambassador's question, Bayar confirmed that both TGS and Turkish Land Forces were reviewing the requirements for attack helicopters. He expected a new request for proposals would be released soon. He opined that periodic rumors that the US Marine Corps' AH-1Z program was being cancelled arose from a lack of understanding in Turkey of the US "milestone" procurement system in which programs are subject to periodic reviews and can be cancelled at various points in the process. The Ambassador and ODC Chief confirmed the USMC program remains on track.

18. (C) The Ambassador noted that the EXIM Bank facility for the purchase of additional Seahawks was approaching its expiry and would need to be used soon or it could lapse. Another extension could be politically difficult, he observed. Bayar was aware of the time limit on the facility but had not fully understood the political aspect of the EXIM financing or its previous extension. He stated that SSM remained committed to negotiating the purchase of additional aircraft from Sikorsky, but that the EXIM terms were not as attractive now as when the facility was first provided. He said SSM "has money in the bank" and Turkish Treasury might choose to finance the purchase using different means, even if a deal was concluded in time to make use of the EXIM facility.

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Defense Budgeting and the EU  
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19. (C) Turning to EU-related reforms and their impact on SSM's spending, Bayar said there is a law requiring SSM to submit a budget in 2005 for its 2006 budget. However, the Defense Support Fund (an off-budget fund for defense procurements that is supplied by certain tax revenues specified by the cabinet) would continue to exist until 2007. Bayar said he was currently discussing with financial and political authorities ways to preserve SSM's secure income stream, ability to use no-year money for multi-year procurement projects, and authority to hold budget resources in foreign currencies. He foresaw parliament enacting a law that would specify the percentages of certain taxes that would be earmarked for SSM, although there was not yet agreement on this. He also thought arrangements could be made for multi-year contracting and foreign currency transactions that would effectively preserve SSM's current practices and procedures. The one significant change, he noted, would be that SSM would have less discretion over the

use of its budget resources. How it spends its money would be specified in the budget.

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More Confident/Clearer Vision  
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10. (C) Comment: Bayar was notably better informed and had a more balanced view of defense industry in Turkey during this discussion than he had displayed last May (reftel). At that time, he could not cite a single successful joint venture in the defense field, even characterizing FNSS -- past SSM undersecretaries' model of a successful international collaboration -- as a complete failure. Now, he not only sees FNSS as a success, but appeared committed to helping the company survive as its production run of armored vehicles for the Land Forces comes to an end this year. While last May Bayar seemed at a loss to describe his 'new model' for defense procurement, he now has a better understanding of some of the limitations that domestic defense industry has. That said, his continued fascination with the idea of developing an indigenous mission computer for Turkey's attack helicopter may reveal he still has some misconceptions about both Turkish industry's capability and the amount of technology release required to successfully integrate an attack helicopter's systems with a new mission computer. Still, he demonstrated considerable evolution of his thinking, presenting a much less combative and nationalist approach. Whether this more thoughtful and realistic line will be reflected in his organization's dealings with American businesses remains to be seen. Boeing just completed a difficult pre-design MOU negotiation on the AEW&C program that suggests SSM's minions have not yet caught up to their undersecretary's vision. The next test will be the new attack helicopter competition. We will have to wait and see to what extent thinking has really changed. End comment.  
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